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Company Conference Presentation

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Presentation

Vincent Stephen Andrews
Morgan Stanley, Research Division

Thank you, and good morning, everyone. Welcome to day 2 of the Morgan Stanley Global Chemicals and Agriculture Conference. We're pleased to have Jim Collins from Corteva with us to kick it off. I think, Jim, you want to go through some of the highlights from last week's Investor Day or inaugural Analyst Day, I guess.

James C. Collins
Chief Operating Officer of Agriculture Division

Inaugural analyst day. That's a great way to describe it. Yes, so good morning, everyone. Great to be here. Thanks, Vincent, for the opportunity. Yes, last week was really great. This is a point in time that we have looked forward to for quite a while, where we were able to sit down and really share the strategies of the 3 companies that are going to be coming out of the Dow-DuPont merger. So you heard from all 3 of the intended CEOs along with several members of the management team over a 2-day period. So when I think about the Corteva event and what we talked about, first of all, the team there talked about a very exciting U.S.-based, pure-play agriculture company that was beginning to emerge with a very, very strong global presence and this deep connection to customers. That was one of the core messages around our unique and advantaged routes to market. And we talked a lot about that. We talked about a growth company, one that was driving both top and bottom line growth that would exceed the industry, and we can cover some more of that, but also a growth company with a new operational discipline and one that was going to be focused on return metrics.

We shared and talked a lot about an innovation company that Corteva was going to be. We believe we have the strongest pipeline in the industry, and you're seeing that in our third quarter and our second half kind of outlooks. And there are couple of press releases that were out just in the last couple of days that really bring that to life. We described a shareholder-friendly company, one that would return free cash flow to shareholders and one that would invest for future returns. So if I think about the Corteva of today, we're stronger. We're faster. We have much greater scale and much greater balance. And we were the only one in this industry consolidation that really put 2 things together that strengthened each other as a result of the merger. We both had chemistry pipelines. We both had seed germplasm. We both had sales organizations that were selling into seed and crop protection. And so 1 plus 1 here really did equal greater than 3. And I think we're proud that we were the only ones that could be able to say that. So that was -- that would kind of be the overview message. I encourage you going on our website. The charts are there and the transcripts are there. I had several members of my leadership team with me. And they are very experienced. They know the industry. Their passion and love for the industry came out loud and clear. The other thing we just -- we kind of rolled out at the session for the first time is what I'm calling my -- the 5 priorities for shareholder value creation over time.

So we have our business strategies, and we'll begin to execute on those. We're going to keep these 5 priorities as kind of the backdrop focus. I'll just tick them off real quick. One was instilling a strong, performance-based culture across the organization focused on metrics, delivering on our commitments. Second, driving a very disciplined capital allocation process with a focus on boosting returns on invested capital. The third one was developing these innovative solutions be in this R&D engine that we've talked about that puts one thing at the center of that, and that's farmer productivity, developing tools and help farmers produce more to meet this growing demand for food that we know about. Four, we talked a lot about this idea of a priority around a best-in-class cost structure. And we did a lot of benchmarking of all of our key functions. And we had the opportunity as we designed Corteva with those cost targets in mind. We designed the structure that way. So not only launching with a best-in-class cost structure, but keeping it that way and keeping the organization focused on that. And then as I mentioned earlier, delivering these above-market top line and bottom line growth over time. And our synergies will allow us to do that. Our best-in-class cost structure will allow us to do that and this pipeline and top line growth. So those were the 5 priorities we talked a little bit about.

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And maybe just finally before we jump into your questions, the team had asked me to maybe answer a couple of questions proactively because we've received them after the conference. Folks looking through the material, they kind of reached out to us and said, "Hey, could you clarify 1 or 2 things." So maybe they are on folks' mind, so I'll just answer real quickly. The first question that came in, it was about our multichannel, multibrand strategy. We talked a lot about that. And we just want to remind folks this is a -- mostly about our seed strategy. There was some confusion about whether we're talking about bundling Crop Protection and seed and selling that through our direct route, and the answer is no. This is about continuing to sell our Crop Protection chemistry through retail, but it's about opening up several other routes to market for our seed germplasm that we just didn't really address before. Pioneer route, the direct market was our primary route. And we've learned through the merger with the Mycogen brand the power of having a retail offering and the ability to consolidate our regional brand. So we will cross-sell. We will have programs that can reward loyalty for buying all of the pieces, but our primary routes to market for Crop Protection are unchanged.

And then there was some confusion about this -- we talked about 1% to 2% growth -- top line growth above the industry. And then later on in the presentation, there was a 1.5% to 2.5% that was mentioned. So the 1% to 2% is on our seed business. 1.5% to 2.5% was on our Crop Protection business. Seed is a little bigger than Crop Protection. So when you put it all together, I just think the easiest way to think about our top line growth -- our commitment going forward is think about it as just 1% to 2% above the market. So those were 2 things I wanted to clarify.

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Question and Answer

Vincent Stephen Andrews
Morgan Stanley, Research Division

Okay. Great. Look, where I'd like to start -- and you referenced it a little bit yourself when you talked about the 1 plus 1 equals 3. I think in the -- my comments with the investor community sort of before and after the event is that one thing I think that the people haven't quite fully crystallized is how does the combination of Dow and DuPont's ag assets really change the overall operational strategy and strategic positioning of the company? You referenced it a little bit talking about the way you now can -- DuPont used to just go to market through the pioneer salesperson with seed. Dow had a smaller seed business, but they had more of a multichannel strategy. And now you have that information and you understand what the other side was doing. Now you have alternative seed brands. So maybe just help us understand that piece of it as well as from a broader R&D perspective the width now of the breeding platform as well as your biotech capabilities.

James C. Collins
Chief Operating Officer of Agriculture Division

Right. So I think that is the first very quick decision that we made was -- around this multichannel. You have to think -- you have to step back and think about the Mycogen breeding pool was fairly limited. It was that Mycogen brand had been developed over time. The DuPont germplasm, the Pioneer germplasm, is world renowned. It's probably one of the largest germplasm pools in the industry. And when you talk to a breeder, one of the first things they tell you is that diversity is always your friend. A broader breeding pool can always help you advance more products more quickly. And so we have 2 benefits here. First, we have the ability now to take the Dow breeding pool. This includes breeding pools that were for North America, but also for Latin America. We retained -- even though we were forced to divest some of the business in Latin America, we returned 100% of the copy of all of that germplasm from Latin America. So we now pool it together with this industry-leading pool. We have a broader breeding base. We have the ability to develop even more robust parent lines with some unique properties that we're only just beginning to discover because we have the ability to breed across -- and those pools were developed independently. So they also represented some unique spaces in each one of them that neither had, had access to before. So our breeding organization is quite happy. We're developing just "in total" for whatever brand you decide to sell them through, we're going to develop better -- some better products. But second, that entire pool now is available for our retail brand, whereas Mycogen's pool was pretty limited. So now you can imagine a retailer in North America who's been selling against the Pioneer brand for years realizes, "Ah, I have the opportunity to tap into the same germplasm thing that Pioneer's been using for all these years, but in my retail brand." And so we're going to approach that 2 ways. First, through regional seed brands. We had 12 to 14 small regional seed brands all across the United States. And in some counties, I actually had 2 or 3 of those competing with each other just -- which -- it's just -- it -- we were overlapping. So it cleaned all of that up, and we regionalized those brands. So now those brands will be stronger and more focused in these regions, and they won't compete and trip over these other bands. Then we're going to launch -- relaunch the Mycogen brand with renewed germplasm. And then we're going to offer out-licensing opportunities for folks who want to create private label brands to tap into that same germplasm pool and sell in a retail proprietary brand. And we've just never done that before as well. So 2 new sources of revenue: a stronger Mycogen brand and a licensing brand, and just a better coordination of all of these. That's just one example. I'll give you 2 other quick examples of how we're stronger. We have unparalleled access to growers through that direct channel, but we didn't have the chemistry pipeline as DuPont to be able to offer a total set of solutions. When you add the Dow chemistry to the DuPont chemistry, all of a sudden now, we can answer all those questions, whether it's pre-, whether it's burndown, whether it's post, whether it's fungicides or insecticides, we finally have the total breadth. And so we'll have this opportunity to pre-position, to cross-sell, to reward loyalty across that and then add to that the digital solutions too. Dow really had no digital presence whatsoever. And you kind of bring all that together. There is a product that's really benefiting from that, and it's our nitrogen product. So we relied mostly on retail before to position this nitrogen-fixing chemistry that helps to hold

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nitrogen in the soil longer, so the plants can have it more available to it. Well, can you imagine 22 Pioneer reps out there talking about this brand-new thing to help growers drive yield and protect runoff from some of this nitrogen leaching? Dow just didn't have that presence, that physical presence, before. And we can use a digital tool to show them how they make more money by applying a few more dollars per acre.

So I got probably 10 more examples. We can go on for a while, but those were some good ones I think that illustrate how the 1 plus 1 really is equaling greater than 3.

Vincent Stephen Andrews
Morgan Stanley, Research Division

Okay, great. Let's stay within seeds then. And one of the thing that I get a lot of questions about as well is just that seed price mix, in the U.S. in particular, over the last couple of years has been pretty stagnant, obviously, with the crop prices come down in '14. But here, we are in '18. We've seen the yields go up. You know you guys are spending a lot of R&D money on new seeds each year. So -- and we know that they're working. So what's it going to take to start to get some good price mix back each year in the corn and soybean portfolio?

James C. Collins
Chief Operating Officer of Agriculture Division

Yes, I -- certainly, it's been competitive, and commodity prices really do drive a lot of that competitiveness. But we feel really good about the performance of the products that we're putting out there, both varieties in soybeans and hybrids in corn. So where that shows up is more in mix. We were able to price targeted pricing for key products. So you're not seeing big volume swings as a result of some of these, but you are seeing the quality of our business come up a little bit. And we have just come off of the 2018 season, where we now have yield performance for all of our products across the broad range of the Pioneer brands. And we put out a press release yesterday, the average yield benefit across the board, when you just -- you take every single product that we launched out there and you just add up what was its yield and yield advantage over the competition and over previous offerings. And it's the highest-yielding lineup of products that Pioneer has ever had in their history. Sometimes, you have some products that are in the low side, or they're further north, or they don't quite have the yield performance. And we were just blown away by what happened in 2018. And then it sometimes happens on corn, but it doesn't happen on soybeans. And the same exact thing happened this year on soybeans with our A-Series lineup. And so that was the second press release that went out yesterday in which we talked about historic yields across our soybean portfolio. And we regularly now have reports coming in from the Midwest of growers harvesting 100 bushel-an-acre soybean farm -- land. So it's really encouraging for me to see the real lift in performance. And going into a tough market with tough commodity prices, one of the best ways to deliver value is to deliver more productivity per acre. So it will always be aggressive out there with pricing, but when you're standing with the kind of product performance behind you that we have, we feel good about our ability to price for value.

Vincent Stephen Andrews
Morgan Stanley, Research Division

Okay. And then maybe as we think about -- we're still waiting for Enlist approval on the trait side of the equation in soybeans. You obviously have it in cotton and corn. You talked a little bit about last week at the analyst day about how once you get that approval, you can sort of begin this process of bringing that into your portfolio and then moving away from sort of the licensing that you're doing today. So just give us a little bit of -- more of a sense of what that would entail how long it would take and maybe what some of the financial benefit would be.

James C. Collins
Chief Operating Officer of Agriculture Division

Yes. So what he is referring to, I think you all probably know is that anytime we launch a new trait, we have to solicit from major countries around the world import approval, so that grain shows up in that country that they've approved it for import, so not for cultivation. And we're awaiting on China to give their final approval for Enlist soy. And we had Enlist corn approved. We had Enlist cotton, which was just

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outstanding this past year, which is the 2,4-D trait. And we're a 1.2 million acres pretty quickly in cotton as they just needed a solution, and Enlist is really great. So we would expect some time over the next 12 months, depending on how the trade talks go between China and the U.S., to get approval. We know that we've answered all the technical questions that they have. And there's about 10 of those traits that are waiting in the queue to be approved. And we have about 5 of those as Corteva. And we've been working with USDA and the USTR to make sure that these traits are prioritized as a part of any discussion. So I don't think we could be involved in and advocating more loudly than we are right now. So we're being a little bit patient. That said, we did have a limited commercial launch of that traits in working with ADM, one of their crush plants. It's gone very well. Growers did get the chance to experience the technology. We have parent lines. And if we got approval, even up till planting next season, we would have some material that we could have out in the field. But expect that 2020 would be then the full commercial launch. It would take us 1 cycle with parent seed to get the production out there. But we could be ready to go in 2020. And our approach there is going to be maybe twofold especially. One is we'd love to license that trait, as I talked about a minute ago. So several of the other seed companies have already approached us and said, "Sign us up." Second, we'll have unique brands where we could only bring Enlist through those brands versus the Extend brand. So we could actually launch those immediately and move pretty quickly. And then there are some optionality that we're developing that some growers want choice. They want to go with the Extend or the Enlist. So we can begin to introgress it into the Pioneer germplasm. And that takes about 5 years to ramp those rates up to full ramp. And by that point, we'll have seen a good 4, 5 years of Extend. We'll be fully enabled with Enlist, and we'll see where EPA goes with labels and restrictions. You just saw they recently backed down on days after planting application window, moved it back to 45 days on Extend, which is tight. And if you're a 5,000-, 10,000-acre grower, and you're trying to get across all of those fields, and you get a couple of rainy days in the middle of that, it's -- it could be pretty tight. So we'll still have a much broader application window, and we won't have the buffer requirements. The third area that I think we're going to really push Enlist hard is going to be in Brazil. I think that chemistry and the lineup of the E3 construct of glyphosate, glufosinate and the 2,4-D trait is just perfect for the way the weed species kind of flush themselves. And you add to that our Conkesta trait, which is a protein one for insect control, it allows us to back out of INTACTA down there as well. So that's on all-Corteva construct in soybeans in Brazil, which is kind of a trait-proprietary presence that we're excited about having. And we'll be pushing that forward as well.

Vincent Stephen Andrews
Morgan Stanley, Research Division

Okay. Maybe let's just touch on crop chem and the pipeline and we'll see if the audience has some Q&A. You did have to do some significant divestitures between 2 portfolios to get over the regulatory line. But I guess, there are 2 things to think about. One, you talked about an opportunity to go back after some of that market share you divested. So how are you doing that? Or is -- this would -- a Dow molecule versus the -- going back towards the DuPont molecules that you had to sell? And what's the strategy around that? And what sort of advantage you have having been in that business for so long? And then maybe just talk about sort of the rest of the portfolio and where it sits and what you want to do with it over the next 3 to 5 years.

James C. Collins
Chief Operating Officer of Agriculture Division

Yes, on the Corteva perspective, we have a really strong lineup of insecticides, the -- we call them the spinosins family. Spinosad and spinetoram, these products have been out for a few years. And they were very, very strong competitors with some of the chemistry that DuPont had prior to the merger. So from the antitrust perspective, we were required to divest the DuPont products, but it still left us with 2 of the premier molecules in that space. One of the reasons why Dow had not penetrated those markets more deeply had been really supply constraints. There were some investment decisions that needed to be pushed further faster. There were some productivity improvements that they were in the process of funding, but they hadn't quite delivered those. So right after merger, I mean, we just -- we really pushed on those hard. And I'm happy to say we've just about resolved all of our supply issues for this wave, and we turned our sales reps now back on to growth mode and said, "We have the supply. Go get back the business." And they've sold us out again. So we're in the process of fielding another set of projects to

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do that. So when you've got great chemistry, and you've got a great sales force that really knows that market, you've just got to stay ahead of them. So part one of that story is we've got to continue to get supply moving. Second, we have even a broader portfolio now. When you add to it Pyraxalt, which is the new insecticide we launched in Asia, and you have a team in Asia that really knows that market from the past, it's how do we go find the higher-value opportunities in a supply-constrained world and make sure that we're just getting the maximum margin out of everything we put into the field. And so that's really what we're working on now is really just kind of lifting the quality of that business, and this new material that's coming on, we'll just keep -- we'll replacing that low end. Now we've got a couple of other molecules coming right in behind that. Isoclast would be next. So we're just not relying on older chemistry. In a couple of years, when some of that other chemistry that we sold or gave away kind of comes off patent, we'll see what that market starts to look like as well. So I'm just excited about our teams out there executing really well, and we just got a great lineup of products to go head to ahead.

Vincent Stephen Andrews
Morgan Stanley, Research Division

Let me see if anybody in the audience have a question they want to ask. Sir?

Unknown Analyst

Can you just talk a little bit more about the time line to expand the capacity and really like ramp up that Spinosad family to start to gain back the share that you sold off?

James C. Collins
Chief Operating Officer of Agriculture Division

Yes, think of the time line 2 ways. You think of it as it's partly de-bottlenecking of the existing, which -- well underway. We're getting the benefits from that almost as we go. This is a fermentation product, so there are strain productivity improvements that we can make. And these are just through biology, right? And we can launch strains pretty routinely. Once a quarter, we're likely to have new and improved strains. And you get a little productivity boost out of that, but you start to get to a point where we just need new fermenters. So we've approved projects, and we have construction underway. It'll take us a couple of years to get that next big jump in capacity. So we'll wring the small incremental productivity ones out almost on an ongoing basis. Those will contribute a little bit every single quarter, and then we'll get the next big jump here a year or 2 from now.

Vincent Stephen Andrews
Morgan Stanley, Research Division

Maybe, I'll ask another one. Maybe, talk about your gene editing strategy and sort of how long is that going to take before it's sort of the meaningful part of the portfolio?

James C. Collins
Chief Operating Officer of Agriculture Division

Yes, we're excited about CRISPR and the opportunity that it presents. The way we'd position CRISPR in using it within genomes to -- obviously not to create new GMOs or introduce any new non-native DNA, but to use it to edit things that Mother Nature has already done. And so for instance, the waxy trait that a corn plant produces, a more functional starch that can be used in cardboard and industrial applications for sprays for stiffness. Unfortunately, the plant that's evolved over time to produce the waxy trait is not that productive of a plant. So we have a corn plant. It has the trait already in it. Mother Nature put it there. We're just editing it into one of our high-yield, high-productivity plants. And that price -- that product has worked its way through all the regulatory approvals as a non-GM product. And we'd expect to have some commercial launches -- limited commercial launch of that starting next year. And these are very isolated, identity-preserved channels because that starch is so value for the -- invaluable for the industrial market. The other area we're going to be working on is in beneficial output traits, things that we can point to that improve the health or the stability or the longevity or reduce the waste of products. And this is where I think we really start to get some groundswell of support because consumers have been asking about these tools and how do they create some beneficial solutions. So Plenish is a great example of where we have

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already engineered soybeans to produce a healthier oil. And through the use of gene editing, we can also produce a little more of that healthier oil and even less of the other oils that contribute to the onset of rancidity and soybean's linolenic is a great example. So we're working on a higher or lower -- construct of Plensih. We'd expect that to be out in a couple of years. We're going to be able to do with CRISPR in 6 to 9 months, but sometimes can take us 6 to 9 years to do. And that's the real benefit of the tool. It's speed -- speed and accuracy.

Vincent Stephen Andrews
Morgan Stanley, Research Division

Sir?

Unknown Analyst

The whole industry has undergone a great deal of change over the last few years with Syngenta kind of the Chinese and Monsanto going to Bayer and then yourselves going through this big transformation. So I suppose the challenge is: How do you really attract the investor dollar? How do you differentiate yourself? And you've explained some of that today? But the risk is the time goes on, and people just get bored or -- how do you really make it compelling? What difference are you going to make to really appeal to people to throw money at you?

James C. Collins
Chief Operating Officer of Agriculture Division

So I think the first difference to point to is the pure play, right? 100% of the resources and 100% of the time, energy and passion of 22,000 people every single day is going to go to be focused on agriculture. And that's making the right investments. It's being more knowledgable and better focused in the marketplace. So clearly, the thesis of a pure play is at the core of this. Second, I think what makes us different is our culture, right? We've brought together 2 companies, 2 businesses that actually were fairly similar in our cultures to start with. And we've just reinforced that and enabled that to another level, which means there's a lot less of that conflict going on between which company are you from and which way is the best. We just said, "Let's take all of it. Put it all together and let's just go design the right one for the future. So on June 1, every single person that's part of the Corteva team becomes the Founder of a new company. I didn't come from one or the other. I am a Founder of the new and the old adage around culture eating strategy for breakfast. It's true you get hearts and minds moving in the same direction. It's hard to stop that. Third, I think we've backed that up by a unique route to market that nobody else has. Others have tried to imitate it. But this connection that we have with growers and our ability to, first of all, sense and get more information much more quickly and respond more quickly but also service them, and we become a partner in that producer's mindset of moving forward to drive productivity rather than just somebody that they're buying from. And then finally, I think we backed that up with the best pipeline in the industry. The science and innovation coming to the 21 new products that we're going to launch over the next 5 years, will allow us to drive these above-industry top line and bottom line growth. And then we have some nice tailwinds that are in there as a result of the merger, right? We have the $1.2 billion worth of synergies that are going to flow through to the bottom line to continually improve the quality of the business and some other areas that are result of the combination, things like growth synergies that you rarely hear about when you put 2 companies together. But the growth synergies that we were talking about earlier with the question Vincent asked us, "Is 1 plus 1 really 3". The -- they're real. And we committed to another $0.5 billion worth of EBITDA from growth side of the business related to that. So that's how I'd answer your question. And I think there is a uniqueness there.

Vincent Stephen Andrews
Morgan Stanley, Research Division

Maybe, the last piece of that is just you're going to return a lot of capital to shareholders, which when we think about through the prior iteration of the industry, most of the capital is going back to the company. So maybe 2 parts of that are: one, sort of how you streamline the R&D program and the return focus; and then two, what have you committed to in terms of returning the capital?

James C. Collins

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Chief Operating Officer of Agriculture Division

Yes, so we talked about at investor day, first, it's very different process to kneel our innovation leader. Encourage you, again, go look at the charts. He actually showed a chart where he talked about the number of programs we've killed over the last 2 years because we want to be very, very disciplined about that capital. And if we have a great idea, and we know it could return value for shareholders, we want to invest in those. But if not, we don't want to waste that money. We want to kill those projects quickly and reallocate that capital to either other aspects of the organization or return it to shareholders. Now while our board right now -- we've got a dividend policy. We established that as we went into the credit rating process. And we'll be certainly competitive with our dividend approach. But also, we committed at investor day that we would develop a returning cash to shareholders through share buyback approach. Now our board needs to meet and talk about that, and what the amount would be and the timing and all of that would be is still to come. But we have that mindset that returning cash through share buyback is another tool that we have to do.

Vincent Stephen Andrews
Morgan Stanley, Research Division

I guess, maybe just the last, last, last piece of this is that your capital structure, you're not going to be laden with some huge debt burden, right? You're just basically taking on maybe you could tell us this.

James C. Collins
Chief Operating Officer of Agriculture Division

Yes. No, that's great. As we've worked through the rating agencies process, we will wind up with the DuPont pension fund, an unfunded liability, around $4 billion. But all of the other legacy liability that DuPont had, those will essentially be satisfied by the time we spin. So you've seen some press releases here recently where we've just gone out with tender offers to begin to settle those and also new financing offers so that the DuPont -- the new DuPont company can go create that -- do that financing to create that cash flow to satisfy those bonds. So yes, essentially, the only real liability that we will have on our balance sheet is the unfunded pension liability. We'll be pretty clean otherwise.

Vincent Stephen Andrews
Morgan Stanley, Research Division

Some of which interest rates hopefully could take care of over time.

Vincent Stephen Andrews
Morgan Stanley, Research Division

We will see. All right. Well, let's leave it there. We're out of time. Thanks very much, Jim.

James C. Collins
Chief Operating Officer of Agriculture Division
Great, Vince, thank you.

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